SENATOR EVAN BAYH

Senate Committee on Banking, Housing, and Urban Affairs
"Reforming the Regulation of the Government Sponsored Enterprises"
February 7, 2008

Clarifying Federal Home Loan Bank Securitization Authority

Chairman Dodd, thank you for holding this important hearing on reforming the regulation of our housing government sponsored enterprises.

These GSEs play a critical role in providing liquidity, and lowering the cost of financing, for housing in America. And during these past few months, we have been painfully reminded of how important these issues are to individual American families and our entire economy.

I'd like to briefly mention the critical role the Federal Home Loan Banks – often referred to as the "third GSE" – have played in helping stabilize the home mortgage market during this recent crisis. I'm pleased to note that one of the Home Loan Banks is located in Indianapolis.

For example, during the third quarter of 2007 – the most recently data available – the Federal Home Loan Banks provided approximately $825 billion in liquidity, known as "advances," to their member financial institutions, a staggering increase of nearly 30% over the previous quarter. This growth in liquidity lending provided some relief to the financial markets during the sub-prime mortgage crisis. Importantly, these advances were provided mostly at rates considerably lower than would be otherwise available to the retail banking institutions. Were it not for this additional liquidity, the problems that continue to plague the home mortgage market would be even greater.

In addition to providing advances to their members for the purpose of funding mortgages, many Federal Home Loan Banks also buy mortgages from member community banks through various mortgage purchase programs. These programs have been quite successful at providing liquidity at competitive rates for their members, and Home Loan Banks currently hold over $90 billion of conforming home mortgages on their balance sheets.

To ensure that community banks can continue to rely on their Home Loan Banks to be a viable mortgage purchaser, the Banks must have the ability to mitigate risk by moving these mortgages off their books by securitizing and selling them. The Chairman of the Indianapolis Home Loan Bank testified last Congress before this Committee discussing the benefits of such a risk mitigation tool.

I should note that the Treasury Department and members of this Committee have often focused on the need to have Freddie Mac and Fannie Mae mitigate risk by reducing the size of their mortgage portfolios – precisely the steps the Federal Home Loan Banks would like to take to ensure their own continued safety and soundness.

Any expansion of the role of Home Loan Banks in purchasing mortgages must not jeopardize the efficacy of their advance lending, which is a unique and important facility. The advance book has been a pillar of community bankers' access to capital, and it should be preserved as such. Furthermore, a securitization initiative by any Bank should be accompanied by careful safety and soundness controls so as not to place undue risk on the Home Loan Bank System as a unit.

I understand that existing law provides ample authority for the Federal Housing Finance Board – the current regulator of the Home Loan Banks – to authorize new funding techniques for the mortgage programs; however, the Board has sought guidance from Congress on this issue.

I look forward to working with the Chairman and the other members of this Committee as we consider GSE reform legislation to ensure that it is clear that any Home Loan Bank regulator has the authority to allow Federal Home Loan Banks to securitize and sell mortgages.